

Capital Overlook Apartments

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Contents

Section 1..... 4
 Site Introduction and Context..... 4
 Site History and Background..... 5
 Demographics and Economics 6
Section 2..... 7
 Project Vision 7
 Market Analysis..... 9
Section 3..... 13
 Building Design Analysis..... 13
 Social and Public Benefits 14
Section 4..... 16
 Environmental Analysis and Design 16
 Zoning Analysis..... 17
 Regulatory Context 18
 Public Approval Process 20
Section 5..... 21
 Construction Costs Analysis 21
 Precedent Images
 Construction Schedule 24
Section 6..... 26
 Marketing Plan..... 26
 Management Proposal..... 28
Section 7..... 30
 Financial Analysis 30
 Income 31
 Expenses..... 32
 Uses..... 33
 Sources..... 34
 Sensitivity Analysis 35
 Exit Strategy 37
 Conclusion..... 37

Section 1

Site Introduction and Context

The subject site is a four-acre parcel located at 5345 Sheriff Road in Fairmount Heights, Maryland. The parcel is owned by the town of Fairmount Heights and is an undeveloped piece of land bordered by single-family homes, a small retail shopping center, and a park. The parcel is long and skinny with about 500 feet of frontage on Sheriff Road; it runs behind the commercial center until it abuts Sheriff Road Park.

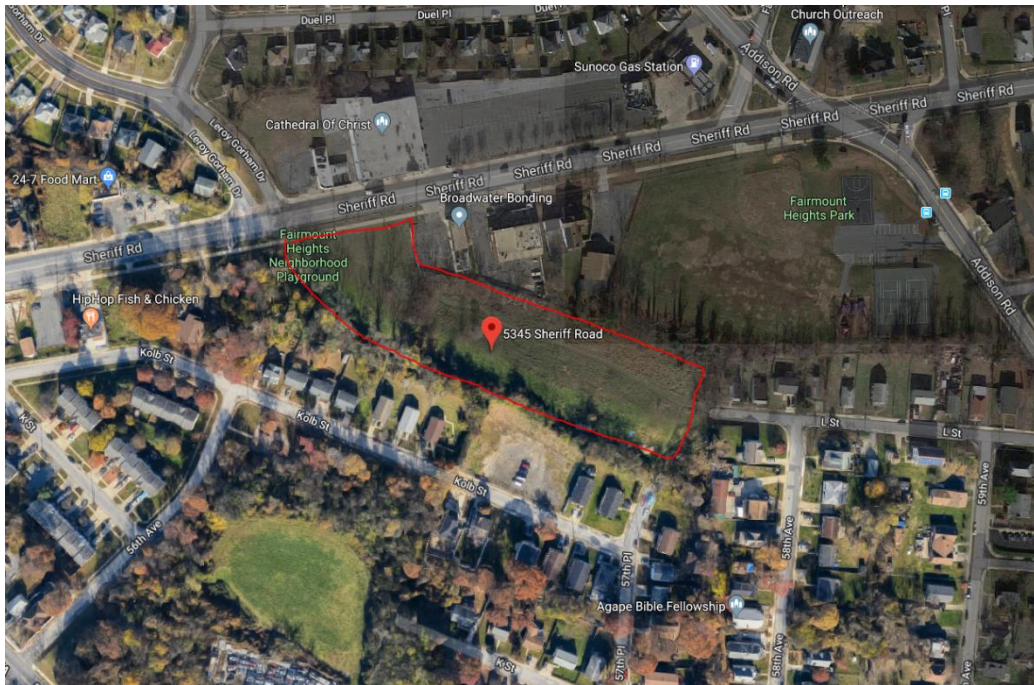


Figure 1: 5345 Sheriff Road Site

The site is located in the Mixed-Use-Infill (M-U-I) Zone which, according to the Prince George’s County Guide to Zoning Categories, “promotes smart growth principles by encouraging the efficient use of land, public facilities and services in areas that are substantially developed. These regulations are intended to create community environments enhanced by a mix of residential, commercial, recreational, open space, employment and institutional uses in

accordance with approved plans.” This type of zoning allows flexibility for the site’s future use and includes multiple by-right options for redevelopment.

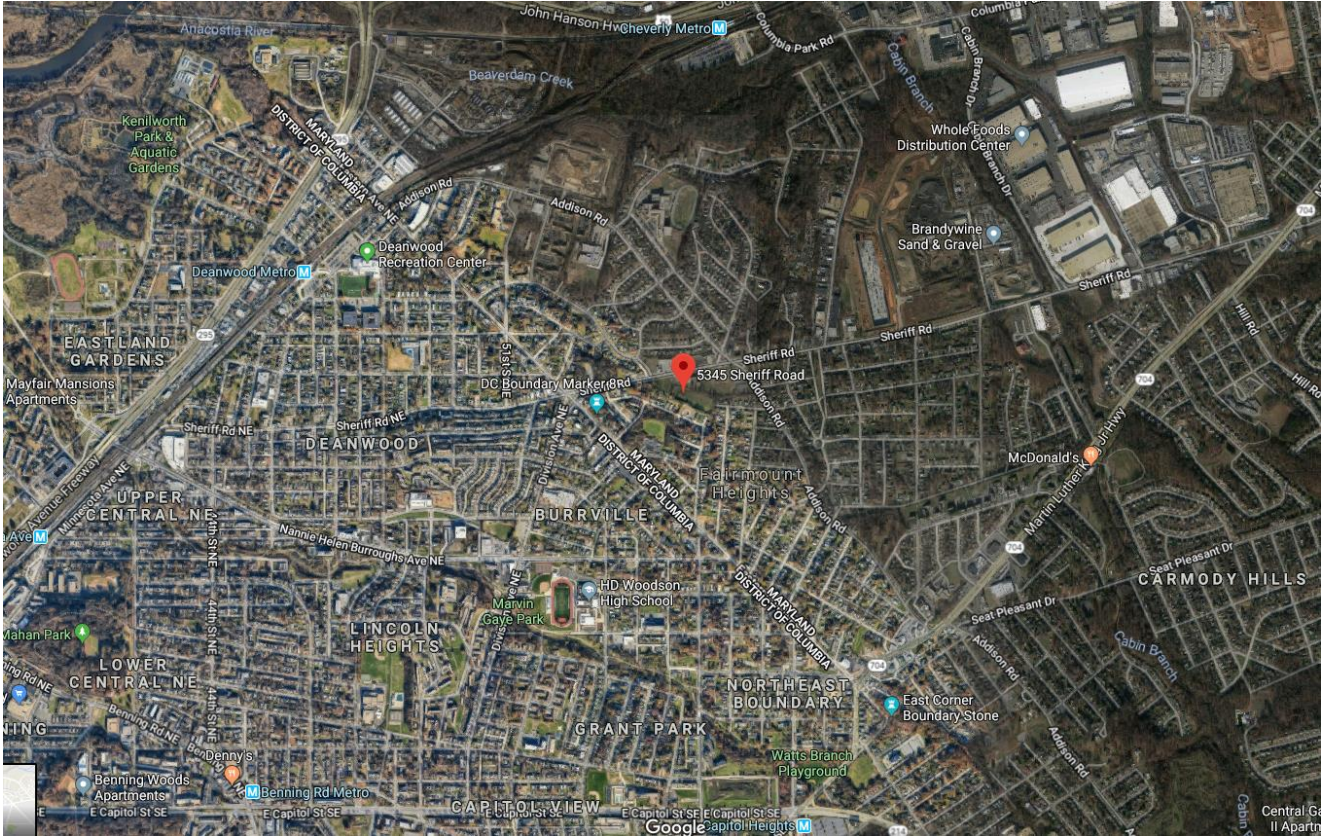


Figure 2: Proximity to Washington, DC

Site History and Background

The town of Fairmount Heights was incorporated in 1935, making it the second oldest African-American-majority municipality in Prince George’s County. The town was listed on the National Register of Historic Places in 2011 due to its significance. The total land area of the town is only .27 square miles, or about 175 acres and it is directly over the Maryland-DC border of Eastern Avenue. William Sidney Pittman, an African-American architect who designed severable notable buildings in the surrounding area of Washington, DC and Maryland, is one of the town’s most notable figures.

Demographics and Economics

Prince George's County borders Washington D.C to the east and extends north toward Baltimore, east towards Annapolis, and south into Southern Maryland. According to 2016 ACS data, Prince George's County had a population of 908,000 people, up from 863,000 in 2010. The county is ethnically diverse, consisting of 61 percent black, 17 percent Hispanic, 13 percent white, 4 percent Asian and 4 percent of residents from two or more races. The county's median age is 36.2 years old and the median household income is \$76,741 with a poverty rate of 9 percent. As of 2016, there were 332,000 housing units with a median value of \$261,000 and an owner-occupied housing rate of 61 percent. Between 2012 and 2016, the median gross rent in Prince George's County was \$1,337.

More specifically, Fairmount Heights has a population of only about 1,500 residents with a median age of 41.8 years old. The population is 86 percent black, 11 percent Hispanic 2 percent Asian and 1 percent other. The estimated median household income is \$59,342, which is much less than the state of Maryland (\$69,272) and Prince George's County average (\$76,741). The poverty rate in Fairmount Heights is also almost double that of Prince George's County at 17.1 percent and the median property value is around \$191,000.

Section 2

Project Vision

Considering the economics, demographics and the background of the site, the vision for its development is an affordable residential project. The area surrounding the site is home to a older housing stock, with little to no new development in the immediate area. The economic makeup of the area is largely low-income and working-class citizens, many of whom likely need a better housing option. Due to the site's location just outside of Washington D.C, the site could include a mixed-income housing development, and possibly offer both for-rent and for-sale products. Mixed-income projects are becoming more popular in the region; similar projects have been planned for other sites in the area such as Barry Farm in Southeast DC. The Barry Farm redevelopment project will demolish 432 deteriorating low-income apartments and build over 1,400 mixed-income residences, 50,000 square feet of retail and commercial space, and 80,000 square feet of green space.

The primary housing type on the site would be apartment buildings and there is also the potential for a secondary use such as retail or recreational space. With 40 percent of the county's population consisting of renters, an affordable apartment community would be in demand for this area, especially for those being priced out of Washington, DC. A for-sale product would also be in demand in this area since all of the existing housing stock is outdated, and new home buyers could be enticed by a new product with excellent proximity to the District. In other mixed-income housing projects, a mix of building types has helped draw people from different income ranges to both the market-rate and affordable housing types.

The site's size and shape presents a challenge for all building types; it is long and thin and wraps around an existing commercial shopping center. The building sizes will be mandated by the lot's shape since it will be necessary to park the site and ideally, provide open space as an amenity for the residents. The apartment building design would likely be garden style buildings or townhouses to fit in with the context of the surrounding area. The buildings will be three-story or four-story slab-on-grade wood frame construction, to make them as inexpensively as possible, which is a major component of affordable projects. A development of this type would likely be able to incorporate some open green spaces and amenities that would complement the adjacent public park.

Market Analysis

A search of the Fairmount Heights submarket on Costar for multifamily properties returns a single result. This property, located at 405-411 Eastern Avenue is the only comparable property for the subject site located in the Fairmount Heights submarket itself.



Figure 3: The Von Eastern Ave Apartments via Costar

The Von Eastern Ave Apartments property consists of two-story garden style apartments totaling 88 units on an approximately 3.5-acre site. The property is an affordable housing development, but it was built in 1945, and given it is the only one in the area means there will be a demand for a similar product that will be brand-new. The Von Eastern Ave Apartments, located only one mile from the subject site, is the basis of the comparable study for the project.

Using the Von Eastern Ave Apartments, comparable properties within a three-mile radius were analyzed, and the results support the proposal for an affordable apartment community at 5345 Sheriff Road. The comparables pulled were located in Washington, DC and

Prince George's County, given that the subject site is on the line between the two. Eight similar Class C or two-star garden style or mid-rise properties were analyzed and two primary characteristics were the average age of the properties and their average vacancy rate. First, the average year built for the properties in the group was 1972, with the newest project being built in 2006, over twelve years ago. It would be hard to classify some of these much older properties as legitimate comparables for the proposed new project due to the significant difference in age. Along with much of the area's single-family housing, the apartment stock is old and outdated, meaning there will be plenty of demand for a new-construction affordable apartment complex. Second, the average vacancy rate of the comparable properties is 5.5 percent, which proves there is steady demand for affordable housing in the submarket with very little vacancy.

No. Rent Comps		Avg. Rent Per Unit				Avg. Rent Per SF				Avg. Vacancy Rate			
8		\$1,162				\$1.33				5.5%			
Unit Breakdown	Low	Average	Median	High	Property Attributes	Low	Average	Median	High				
Total Units	75	123	112	173	Year Built	1948	1972	1968	2006				
Studio Units	0	0	0	0	Number of Floors	2	3	3	4				
One Bedroom Units	0	24	20	58	Average Unit Size	698 SF	874 SF	899 SF	1,101 SF				
Two Bedroom Units	23	76	66	169	Vacancy Rate	0.0%	5.5%	3.7%	13.2%				
Three Bedroom Units	0	22	20	60	Star Rating	★★★★★	★★★★★2.1	★★★★★	★★★★★				

Figure 4: Comparable Summary via Costar

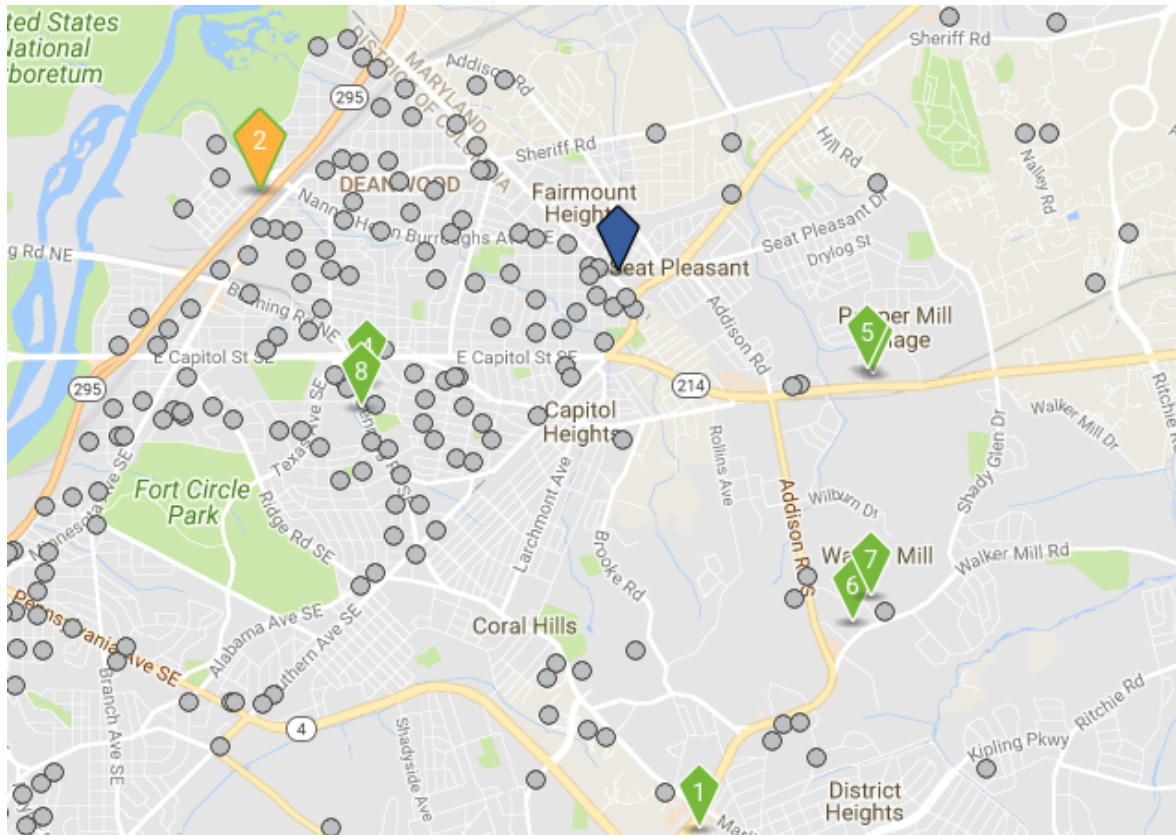


Figure 5: Location of Comparables via Costar

Map #	Name	Address	Units	Stories	Yr Bld/Ren	Avg SF	Mi. Away	Rent/SF	Rent/Unit
	Eastern Avenue	506 62nd Pl	88	2	1945	640	0.0	\$1.88	\$1,206
✓ 1	Parkland Village Apartments	6004 Parkland Ct	159	3	1948	742	2.8	\$1.63	\$1,207
✓ 2	Lotus Square	800 Kenilworth Ave NE	173	4	2006	886	1.8	\$1.57	\$1,394
✓ 3	Central Gardens II Apartments	6804 Central Ave	106	3	1965	938	1.4	\$1.43	\$1,338
✓ 4	Bass Circle Apartments	4511 Bass Pl SE	119	2	1948	871	1.4	\$1.29	\$1,122
✓ 5	Central Garden Apartments I	1 Cindy Ln	94	3	1965	922	1.3	\$1.26	\$1,158
✓ 6	Regency Lane	6806-6868 Walker Mill Rd	172	3	1972	912	2.1	\$1.25	\$1,142
✓ 7	Millwood Townhouses	1418 Karen Blvd	75	2	1978	1,101	2.1	\$1.03	\$1,137
✓ 8	Benning Road Housing Coop...	4625 Benning Rd SE	86	2	1997	698	1.5	\$0.74	\$516

Figure 6: Comparable Summary via Costar

The best comparable property for a newly built apartment project would be Lotus Square, at 800 Kenilworth Avenue NE in Washington, D.C. These are three-star midrise affordable apartments with 173 units that were built in 2006. Currently, the building has an only 1.7 percent vacancy rate, proving a high demand for quality affordable apartments in the area. Being a newer project, Lotus Square has amenities including controlled building access, a courtyard, community rooms, social events and activities, and a fitness center. The rest of the comparables listed above have little or no amenity space and are low-scale projects built over 50 years ago.



Figure 7: Lotus Square Apartments

Section 3

Building Design Analysis

The primary use of the development site at 5345 Sheriff Road will be mixed-income garden-style apartment buildings consisting of either three- or four-story buildings. The site is bordered on one side by a small commercial shopping center with two-story buildings and on the other side by single-family detached residences. To fit in with the area's context, the buildings closer to Sheriff Road will be shorter than those at the back of the site. There will be a total of four apartment buildings on the site, with the three of them running along the south side and the fourth in the upper back corner, closest to the park. The first two apartment buildings will be three-story walkups and the two buildings at the rear will be four-story walkups. This layout aims to increase the site's density without creating an overwhelming presence that will stand out from the surrounding area. This layout would result in 112 units in four buildings. The design of the actual buildings will include a mix of wood siding and either brick or stone.

The buildings will be designed according to the Leadership in Energy and Environmental Design, or LEED, system and will target the achievement of LEED silver. The LEED principles focus on creating healthy, highly efficient, and cost-saving green building. To achieve a LEED Silver certification, the project must score between 50 and 59 points on the LEED v4 Building Design and Construction Checklist. Scoring at the Capital Overlook Apartments resulted in a 54 out of 110 possible points. Precedent images of proposed building types are shown below.



Figure 8: Garden-Style Apartment Precedents via Google Images

Social and Public Benefits

After meeting with the stakeholders and community members of Fairmount Heights, a community recreation center has been added to the site plan. The community center will be at the rear of the parcel, adjacent to the Sheriff Road Park in an effort to tie into the existing community and reactivate the park. This building will serve as a gateway to the community and be a landmark destination in the town. The citizens and council members of Fairmount Heights spoke fondly of the historical significance of the town among the African-American community, and the former feeling of a safe, tight-knit community with an emphasis on relationships. Over the years, long-term residents feel that the neighborhood has been devalued and forgotten due to the fact that it is located in Maryland, rather than across the boundary in a similar neighborhood like Deanwood.

The community center will provide a safe place for people of all ages to socialize, exercise, organize meetings, and use resources that might not be available elsewhere in the community. The vision is to include multipurpose rooms that can hold wellness classes like yoga and Pilates, a full-court basketball gymnasium, and exercise equipment for all skill levels. The center will also have space available for community organizations to meet and hold events like farmers markets, festivals, and other uses. The community center will have similar design aspects as the rest of the development’s buildings but may also use some glass and steel to create more of a statement piece for the project. The community center will range between 8,000 to 10,000 square feet. Precedent images of community centers are below.



Figure 9: Community Center Precedent Images via Google Images

Section 4

Environmental Analysis and Design

The 4.4-acre site is a greenfield that has been owned by the town of Fairmount Heights since 2002. According to the Prince George's County Atlas, the site has no environmental complications and is prime for development. The site is not located in a floodplain, has no impervious surface, no wetland or woodland conservation area, and has no other foreseeable complications. A Phase 1 environmental study will consist of boring holes throughout the development site to test the soils. There are slight topographical changes on the site, which slopes down and away from Sheriff Road and the northern border along the commercial shopping center. An electrical utility box is located on the site, which means there is utility access along the Sheriff Road side of the site. The site is located in the Lower Anacostia River watershed therefore construction runoff will be monitored closely and bioswales and planters will be integrated into the final site plan.

The Prince George's County 2035 Approved General Plan lays out guidelines for development within the county. The development team will refer to that guide for all goals and objectives relating to environmental infrastructure, public facilities, housing, urban design, and green building. The project plans will include solar panels in an effort to offset utility costs for the community center and all of the apartment buildings as well. Other environmental design aspects will include the conservation of some of the trees along Sheriff Road and along the south side of the site. Walkability and bike-ability through the site will also be emphasized in the environmental design process as Google Images show that the site currently has plenty of pedestrian traffic as evidenced by the desire-line path from L Street to Sheriff Road.

The project will combine environmentally conscious design and social benefits that will provide services to many types of people. The development will include affordable and market-rate housing that is sustainably built, while also providing a much-needed community recreation center in this historic town that is trying to regain its identity as a family-oriented environment. Not only will the project provide housing for upwards of 100 households, but also opportunities for community members and citizens of Fairmount Heights who want to have a landmark destination that they can be proud of and where they can gather conveniently and safely.

Zoning Analysis

5345 Sheriff Road is zoned as Mixed-Use-Infill (M-U-I) which is rather flexible in terms of the allowable uses. From the Guide to Zoning Categories for Prince George's County, "Mixed-Use Infill – promotes smart growth principles by encouraging the efficient use of land, public facilities and services in areas that are substantially developed. These regulations are intended to create community environments enhanced by a mix of residential, commercial, recreational, open space, employment and institutional uses in accordance with approved plans." Residential development in the Mixed-Use Infill zone are subject to the standards of the R-18 Zone, which is described as multifamily medium density residential. The R-18 Zone provides for multiple family apartment developments of moderate density including single-family detached homes, single-family attached homes, two-family and three-family dwellings, and mid-rise apartment buildings. The R-18 Zone allows up to 48 units per acre on a given multifamily development site. The subject site is 4.4 acres and therefore the maximum allowable density would be 211 units.

Due to the surrounding context and the shape of the lot, achieving the maximum amount of units will not be a priority in the programming of the site.

Parking requirements are also dictated by the zoning code, with allowances or exceptions with consideration to public transportation. Because the site is within one mile of the Deanwood Metro Station, the parking requirement is reduced from the 2.0 spaces per unit plus 0.5 per bedroom over 1 per unit to 1.33 parking spaces per unit plus 0.33 parking spaces for every bedroom over 1 per unit. This reduction will save considerable space throughout the site that can remain as open space and will also drastically reduce the cost to build parking. Building heights are also mandated by the zoning code and in the R-18 Zone are capped at forty feet. There is an exception for sites larger than four acres, which allows building height as high as eighty feet. Due to the lot shape and cost of construction, the proposed building heights will come close to the original forty-foot height restriction. Lot coverage is another major aspect of the zoning code. For buildings three stories or less, the zone allows a maximum lot coverage of 30 percent, which equates to the total building footprint of the site being 57,533 square feet. For buildings four stories or greater, the maximum lot coverage increases to 40 percent or 76,720 square feet. The proposed apartment buildings will have a footprint of less than 10,000 square feet; the four apartment buildings and a recreation center will be within this maximum lot coverage.

Regulatory Context

The M-U-I zoning is a major strength of the site since the project will not have to go through a zoning change to develop the proposed community. This type of rezoning whether it

be a map amendment, variance, comprehensive rezoning or special exception can increase the project timeline due to delays in the public approval process. The development review process is outlined on the Prince George's County Council website, which also provides explanations of the zoning designations and rezoning processes.

The first step in the land development process is review and approval of the subdivision documents and plats. The preliminary plats are reviewed to determine if there are enough public facilities to service the site. This includes water, sewer, electrical and any other utilities that will be necessary. The Planning Board also looks at schools, fire and rescue facilities, and public roads to ensure that there is enough capacity for the added density in the area. The preliminary plats are also used to understand the existing environmental issues including conservation areas and stormwater management issues. The plats are used to determine how they will change with the new development. All must be approved by the Planning Board before the new subdivision is recorded.

After the plats and the subdivisions are approved the Planning Board holds a site plan review, which is an in-depth review of the site plan including parking, landscaping, site layouts, grading and more. The Zoning Ordinance outlines the standards that all of these areas must meet. The Board is required to hold a public hearing on the site plan within 70 days of the time it is accepted. At this meeting, community stakeholders can voice their opinions and make recommendations about the development. The Board then approves, approves with conditions, or denies the plan.

Conceptual site plans and detailed site plans are both subject to the site plan review process. The conceptual site plan shows the basic relationships among the uses and includes

approximate locations of site features. The conceptual site plans must be approved before a preliminary plat of subdivision may be approved. The detailed site plans show specific locations of the physical features and contain the level of information necessary to obtain a permit. These plans are valid for three years and no building permits can be issued until the detailed site plan has been approved.

The next step is permit review in which building permits, use and occupancy permits, and grading and sign permits are issued by Prince George's County Department of Environmental Resources. The Department of Environmental Resources then refers the applications to the necessary departments within the state government. Projects involving a historic site may require additional reviews and permits, but this Sheriff Road site is undeveloped and not deemed historic.

Other regulations involved in the process include woodland conservation and landscaping, which have an impact on the environment and the development process. To minimize woodland and tree destruction, the preservation ordinance sets site-specific plans and commits to the use of certain tree protection techniques. The subject site has some wooded areas that will either be preserved or be reproduced in the final site plan according to the Zoning Ordinance. The landscaping manual and ordinance will also be followed to create an environmentally-friendly community with sustainable trees and ornamental plants throughout the site.

Public Approval Process

While the proposal is a by-right project, stakeholder and community buy-in is important for a successful project. The charrette held by the Fairmount Heights Town Council played a

major role by receiving community feedback. The meeting was held to understand the town's historical background and hear what the citizens might like to see in future development. Of all of the topics approached, a few themes repeated and stood out as the most important. It was apparent that the town's history as one of the first African-American towns in the county and its notable figure, Sidney William Pittman, an architect who designed some of the significant buildings around town, is something the citizens take great pride in. Second, the importance of community and rebuilding the family-like atmosphere was mentioned repeatedly by meeting attendees from all different backgrounds. Third, the need for a main-street and local corner stores and retail shops was also mentioned as something the stakeholders would like to see. Fourth, the desire for a safe place for people to come together, children to play, seniors to exercise, and community members to hold events and activities was a major wish-list item. For all of these reasons, the addition of the community and recreation center will help fulfill what the community members hope to see as investment and development is reintroduced to the area.

Section 5

Construction Costs Analysis

Construction costs are one of the most important aspects of a development project, especially for an affordable or mixed-income housing development. To keep costs low and

working with the site's size and shape, garden-style apartments were selected as the product type. DHCD encourages cost effective construction across all product types and therefore sets a maximum price per square foot that a development must stay under to obtain maximum points. The proposed project type for the Capital Overlook Apartments is garden-style apartments which has a maximum price per square foot of \$129. The target price per square foot for the entire project will be \$125/sf or \$130,000 per unit and the price per square foot for the recreation center will be closer to \$200/sf.

The total built square footage for the apartment buildings will include two three-story buildings and two four-story buildings, where each floor is 7,200 gross square feet for a total of 100,800 square feet. At \$125/sf, the total construction costs for the project's residential portion comes to \$12,600,000. The community recreation center is planned for 10,000 gross square feet and at \$200/sf will cost \$2,000,000. This brings the total project cost to \$14.6 million, which equals \$130,357 per unit.

The mechanical and plumbing systems are some of the most expensive aspects of the overall project costs and for this project, \$12,000 per unit has been budgeted. The HVAC systems used here will be split systems with heat pumps for the outdoor units and air handlers inside each unit in a utility closet. To achieve the green energy goal of LEED Silver, high efficiency units will be used. Not only does the high efficiency help with the project's sustainability, they also help reduce tenant expenses.

Many costs on a per unit basis are fixed no matter the class of unit such as wood framing, drywall plumbing, and electrical work. The finishes should get close attention to value-engineer the property and be mindful of the project's affordability. The property will be a

mixed-income apartment community and in an effort to reduce costs, all the units will receive the same finishes. Interior finishes will include luxury vinyl tile throughout, granite countertops, plywood cabinets, and electric appliances.

The buildings' exterior is another major component of construction costs for any project. The exterior finishes on this site will be a mix of manufactured stone and wood siding. A basic stone veneer costs about \$12-\$15/sf, which becomes a huge expense on a project with multiple buildings. For that reason, typically the stairwell entryways and only certain parts of the ground floor will feature this design. The wood siding product typically costs about \$5-7/sf, twice the amount of the least expensive option of vinyl siding at around \$3.50/sf. This minor design characteristic will drastically enhance the appearance and provide a favorable design aesthetic at a reasonable cost.

The parking lot and landscaping for the site is one of the last major categories of construction costs. Based on the zoning requirements, the parking lot will include 152 spaces and at around \$8,000 per space (which includes asphalt, sealing, lining and light fixtures) will cost \$1,216,000. Landscaping will include sod and small shrubs along the buildings and the parking lot.

Precedent Images

Exterior Siding and Stone



Interior



Flooring



Construction Schedule

A basic construction schedule is included below. The 278-day total, not including weekends, equates to less than one year of construction time. The overall project timeline is calculated to be two years including 8-12 months of entitlements and preconstruction and 12 months of construction from the time site work begins. A guaranteed maximum price structure will be determined with the General Contractor chosen for the project.

Task	Number of Days	Description
Site work	22	Tree and vegetation removal, grading
Foundation	37	Slab-on-grade foundations poured
Framing	50	Stick-built framing
Dry-In	25	Windows, roofing, doors
Rough-In	44	Electric, gas, plumbing, sprinklers
Hangout	25	Drywall, interior doors, trim
Finishing	75	Flooring, tile, paint, light fixtures, appliances
TOTAL	278	

Section 6

Marketing Plan

The Capital Overlook Apartments is a mixed-income apartment community that will provide much needed affordable housing and market-rate apartments to the town of Fairmount Heights in Prince George's County. The project will be financed, in part, by Low Income Housing Tax Credits, which will require that 40 percent of the units be affordable to those making 60 percent of the area median income. This will include 48 affordable housing units in a mix of 1-bedroom, 2-bedroom and 3-bedroom units. The market rate aspect of the community will introduce 64 apartment units to an area which has lacked new housing stock, especially for-rent apartments, for some time. As mentioned earlier, there are few comparable products in the immediate area, and proximity to DC makes this an excellent location to live for people who work in either Prince George's County or Washington, DC.

The Capital Overlook Apartments emphasize on the familial and close-knit community feeling that the citizens of Fairmount Heights mentioned frequently during the development charrette. The William Sidney Pittman Community Center will be the main catalyst for this effort within the Capital Overlook project. Named for one of Fairmount Heights most famous past residents, the center will be a place for exercise, recreation, community meetings, education and more, all within walking distance of other important destinations in the town. The Pittman Center will be home to a full-court basketball gymnasium, several multipurpose fitness rooms, an exercise equipment area, and classrooms open to apartment residents and the rest of the town alike.

There will be an ongoing tenant services plan in partnership with the management company chosen for the Capital Overlook Apartments. The plan will focus on six major areas: youth programs, job skills, education and financial literacy, health and wellness, transportation and safety, and community building. A full-time employee of the management company will oversee these resident services and will rely on help from community members for organization and reinforcement of the values. The youth programs will be determined based on residents' needs and would include daycare, after-school programs, and partnerships with area children's organizations that organize field trips, guest presentations, or assemblies at the center. The job skills, education, and financial literacy programs would provide valuable learning experiences for people in the Fairmount Heights community. Workshops at the center would include classes on financial literacy, the basics on how to rent an apartment or buy a house, how to open a bank account and save money, and other programs that the residents are interested in. The job skills program would be one of the most important services offered, as many residents in the affordable units might have had trouble getting and keeping jobs in the past. This program could teach skills on getting jobs, such as resume and cover letter writing, and provide access to jobs or trade schools and other programs.

Health and wellness programs would be a major focus of the recreation center, which would be home to a gym, fitness center and other classes such as yoga and Pilates. The center would also provide classes on healthy living and eating, such as how to cook healthy meals. Transportation is another focus for the tenant services program that could link residents to alternate methods of transportation besides the convenient WMATA options. The Capital Overlook apartments are located within one mile of two Metro stations on the Orange, Blue

and Silver transit lines. The site is also near multiple bus routes including the F14, V14, and U4 bus lines that provide access to other parts of the County and Washington, DC. In addition to these options, Capitol Overlook will have five car-share spots at the Pittman Center. These spots will be reserved for Zipcar service, which allows people to rent cars on an hourly or daily rate and then return them to the designated spot. These programs are becoming more popular in urban areas and are a great option for people who do not want to or cannot afford to own a car.

Lastly, safety, security, and community building will be one of the pillars of the Capital Overlook Community. The community will employ a security patrol that will work out of the Pittman Center and cover the entire development grounds. The community will be well-lit and will serve as a community focal point. It will be heavily invested in to make sure it is safe and secure for all residents. Affordable housing developments can have stigmas about them for being dangerous or turning into housing projects, but an effort will be made from the beginning of the project to properly manage it and provide a safe place for all tenants. The development will also reconnect some of the street grid and encourage usage of the Sheriff Road Park again in a positive way. The vacant site currently appears to be home to unwanted loitering and possible suspect activity as evidence by some of the litter found when walking the site, including drug and alcohol paraphernalia. Part of the community aspect, that will also be part of the health and wellness initiative, will include outdoor events such as farmers markets and seasonal events at the center and park.

Management Proposal

Capital Overlook Apartments will be managed through a third-party property management company with experience in mixed-income properties, at a rate of 3.5 percent of annual income. The goal is to lease-up all the affordable housing units before the project's completion. The rest of the units will have a lease-up target of nine units per month for a total period of six months. Typically, in mixed-income properties, the affordable units lease up immediately due to high demand. The market-rate apartments usually take longer because there can be a negative impression about living in a mixed-income community. The Capital Overlook apartments will have no problem renting the market-rate units since there is no similar product within a five-mile radius built in the last five years. Working class citizens of Maryland and DC will see the benefits of living in a brand new, sustainably built development with an emphasis on community and easy access to multiple modes of transportation.

Section 7

Financial Analysis

The Capital Overlook Apartments by the Cashen Development Corporation will be financed by Low Income Housing Tax Credits (LIHTC) in a competitive nine percent tax credit deal. The LIHTC program is a federal subsidy used to finance construction and rehabilitation of low-income affordable rental housing. Lawmakers created the program as an incentive for private developers and investors to provide more low-income housing. Without the incentives in the LIHTC program, the affordable housing projects do not generate sufficient returns to warrant their investment by for-profit developers. The LIHTC program gives investors a dollar-for-dollar reduction in federal taxes in exchange for providing financing for affordable housing projects. The investor equity allows the units to rent at below market rates and in return the investors receive tax credits paid annually over a ten-year period.

The tax credit program can be used to construct new or renovate existing rental buildings. The LIHTC program is designed to subsidize 30 percent of the low-income costs in a four percent deal, or 70 percent in a nine percent credit deal. The four percent deals can be partnered with tax-exempt bonds and other federal subsidies, while the nine percent deal only supports new construction and cannot include any additional federal money.

LIHTC rental properties typically have lower debt service payments and lower vacancy rates than market-rate housing. They usually lease up quickly due to the high demand for

affordable housing, especially in and around the District of Columbia, where waiting lists can be anywhere from six months to two years or more. The properties are often developed under limited partnerships since they can offer limited liability to investors while allowing them to use the tax credits.

LIHTC deals are common practice for non-profit developers or public-private partnerships since they are typically located where land costs are lower and municipalities are looking for more affordable housing options. The Capital Overlook Apartments will be a public-private partnership between Cashen Development Corporation, The Town of Fairmount Heights which owns the land, and the Prince George's County Housing Authority. To make the deal possible, the Town of Fairmount Heights and Prince George's County will have to agree to sell the land to the development entity at its current assessed value of \$304,000. This low basis is necessary for the project to be financially feasible and allows for the developer's main source of income from the project, a \$2.4 million developer's fee.

Income

The project income is based on a nine percent tax credit deal requiring that 40 percent of the units be affordable to those making 60 percent of the Area Median Income. The unit breakdown is 48 low-income units and 64 market-rate units for a total of 112 units. The low-income units will include 14 1-bedroom units, 28 2-bedroom units and six 3-bedroom units, each with one bathroom. Subtracting the tenant utility allowance per unit, the adjusted rent per unit will be \$915, \$1,061, and \$1,209 per month for a 1-, 2-, or 3-bedroom unit, respectively. The market-rate component will include 19 1-bedrooms, 39 2-bedrooms and six 3-bedroom units. Contract rent for these units will be \$1,250, \$1,550 and \$1,850 per month, and

tenants will be responsible for all of their own utilities. The effective gross annual income for the low-income units will be \$567,401 and \$1,010,371 for the market-rate units. Annual nonresidential income for items including fees, laundry, vending etc. will be \$64,716 for a total effective gross income of \$1,642,487 per year.

Unit Type	# of units	% of units	Average SF	Average Rent
Market				
1 bedroom	19	30%	805	\$ 1,035.00
2 bedroom	39	61%	935	\$ 1,241.00
3 bedroom	6	9%	1,200	\$ 1,434.00
TOTAL	64	100%		
Affordable				
1 bedroom	14	29%	805	\$ 1,187.50
2 bedroom	28	58%	935	\$ 1,472.50
3 bedroom	6	13%	1,200	\$ 1,757.50
TOTAL	48	100%		

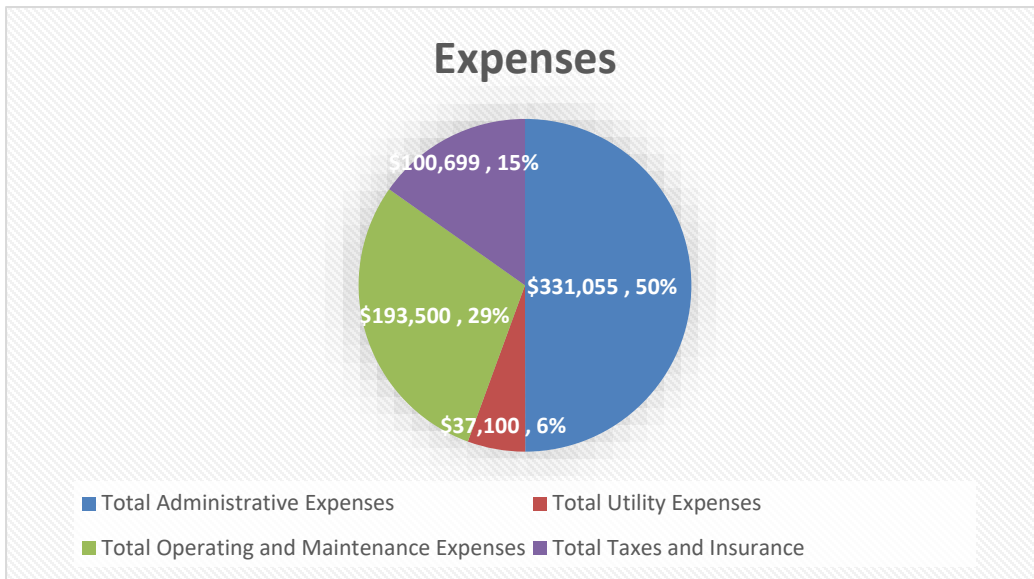
Expenses

Project expenses consists of four major categories: administrative, utility, operating and maintenance, and taxes and insurance. Administrative expenses make most of the project expenses and include advertising, staff salaries, office supplies, property management fees, and more. The payroll of the Capital Overlook Apartments will include a property manager, assistant property manager, leasing associate, and a resident services staff member. These combined salaries total approximately \$200,000 per year and the total administrative expenses come to \$331,055 per year. Utility expenses will include all house accounts and will total \$37,100 since the building will be new construction and tenants will be responsible for their own utilities. This bill includes electric, gas, and water for common areas, office, and community center.

Operating and maintenance expenses are the second largest category since it will also include salaries for two maintenance technicians at \$100,000 a year combined. Other expenses

include extermination contracts, garbage removal and security contracts for roaming officers. The total operating and maintenance expenses will be \$193,500 annually. Lastly, taxes and insurance will account for \$100,699 per year between payroll taxes and property and liability insurance.

These four categories bring the total operating expenses to \$701,554, or \$6,264 per unit, which is within the allowable range determined by the QAP of \$7,000/unit. Considering the effective gross income minus the total operating expenses, the net operating income of the Capital Overlook Apartments is \$940,933.



Uses

Construction costs are a key element of any development project and are especially important for an affordable housing project. The slightest cost overrun can sink a project already operating at thin margins. The DHCD Multifamily Rental Housing Financing Guide provides maximum cost per square foot allowances for each asset type. The Capital Overlook Apartments are garden-style apartment buildings of three and four stories which has a

maximum of \$129/sf for hard costs. The net construction costs are \$12,880,000 and with 103,610 square feet of residential space, the price per foot equals \$124/sf. The total construction costs for the Capital Overlook Apartments is \$14,855,560.

There are also other fees related to construction, soft costs, which includes architecture, civil engineering, marketing, surveys, environmental, attorney fees etc. that must be accounted for, but are not part of the eligible basis. These fees total \$857,500 on this project. There are also financing fees and charges that must be budgeted, including interest, taxes, mortgage premiums, title and recording fees, among others, for a total of \$1,614,916. The assessed land value is \$304,400, which will be paid to acquire the parcel from the Town of Fairmount Heights.

Other important uses of funds include the developer's fee, which is how the development team gets paid during project construction. The total developer's fee that the Cashen Development Corporation will receive is \$2,255,163, approximately 10 percent of the total project costs. The total uses of the project amounts to \$21,809,967.

Sources

The two sources of funds for the Capital Overlook Apartments will be a HUD221(d)(4) loan and Low Income Housing Tax Credits. The HUD221(d)(4) loan is the industry's highest-leverage, lowest-cost, non-recourse, fixed rate loan available and it is guaranteed by HUD. The loan is fixed and has an amortization period of 40 years and on a mixed-income project such as Capital Overlook Apartments, the minimum Debt Service Coverage Ratio is 1.15. The loan program has specific requirements that HUD reviews and manages before awarding it to projects. Most HUD221(d)(4) loans are construction loans for \$15 million or above. The Low Income Housing Tax Credits are the project's primary equity source and are typically purchased

by banks that need to comply with Community Reinvestment Act regulations. This type of tax credit deal may be attractive to groups like Boston Financial, R4 Capital, or RBC Capital because they need to make investments and provide services in low-income neighborhoods to comply with CRA. Banks have stated that the yield of tax credit housing deals are greater than other options they could invest in to fulfill their obligations. The loan amount will be \$14,742,417 and the LIHTC proceeds will be \$7,067,550, for a total sources of funds equal to \$21,809,967.

Sensitivity Analysis

The following chart represents a sensitivity analysis for the Capital Overlook Apartments. Three variables were tested to determine the effects of changes in funding sources. The Loan Amortization Rate, the Debt Service Coverage Ratio, and the Tax Credit Pricing were analyzed and the findings are presented below. Many real estate professionals are speculating that the market will see a rise in rates in the near future and it is apparent the affect that even a 1 percent increase in the rates will have on the loan. The model is based on an 4.70 percent rate and the analysis shows that the all-in rate could increase to 5.50 percent without creating a gap in financing, but 6.00 percent creates a gap of nearly \$350,000.

The minimum Debt Service Coverage Ratio is another factor tested in the sensitivity analysis. Using the HUD221d(4) mortgage for a mixed-income development will provide a term of 40 years and typically requires a 1.15 Debt Service Coverage Ratio. Market change could dictate changes in requirements and the analysis shows that there is no gap at 1.25, but increasing the DSCR to 1.40, creates a \$300,000 gap. Last, the pricing of tax credits is a major concern for the success of these tax credit deals. The project is modeled using a \$1.00 tax credit

price and the sensitivity analysis shows that the price could be bumped down \$.20 without causing a financing gap. At \$.70 however, a financing gap of \$614,798 is created .

Sensitivity Analysis		
All-In Loan Amortization	Max Loan Amount	Financing Gap
4.70%	14,742,417	0
5.50%	13,219,750	0
6.00%	12,392,194	(348,836)
DSCR		
1.15	14,742,417	0
1.25	13,563,024	0
1.40	12,109,843	(302,223)
Tax Credit Pricing	Max LIHTC	
1.00	902,689	0
0.90	812,420	0
0.80	722,151	0
0.70	631,882	(614,798)

Another aspect of the sensitivity analysis for the Capital Overlook Apartments deal is the risk involved in applying for the 9 percent LIHTC, which are competitive. In recent years, as many as 20 or more projects have submitted for LIHTC funding when as few as eight or nine projects could be awarded credits. The backup plan for the project would be to underwrite it as a 4 percent tax credit deal, which are not competitive, but which award less tax credit equity financing. In a scoring summary of the Capital Overlook Apartments, the project achieved a 164 out of a possible 199 points. In 2016, awarded projects ranges in scores from 163 to 197, with an average score of 185 points.

Underwriting the Capital Overlook Apartments as a four percent deal and leaving all other variables the same, would result in a financing gap of \$3,028,183. In this worst-case scenario, the development team would need to consider a number of remedies to fill that gap,

including using other soft sources of government financing such as the Partnership Rental Housing Program, Housing Grants, and HOME Funds. The programs are supplemental sources that can be used to fill the financing gap on a bond deal, some of which are debt instruments and others used as equity. Other methods of filling the financing gap would include deferring the development fee so that it gets paid out over the 15-year affordability period of the deal, or use the developer's own equity, or raise outside equity from investment partners.

Exit Strategy

The exit strategy on Low Income Housing Tax Credit deals differs from a typical market rate project because the project has a mandatory hold period of 15 years during which the project must remain affordable. For this reason, return metrics such as the IRR and return on cost, are less important than in a market-rate deal because the investors are receiving benefits in the form of tax credits over the course of ten years instead of returns on equity. The exit strategy for the Capital Overlook Apartments would be to hold onto the property for the 15-year period and then buy out the tax credit investors, re-syndicate, and put new tax credits on the deal in the form of a four percent rehabilitation deal. To do so, the property will go through a renovation that will include replacing mechanical systems, renovating common areas and amenities, and essentially beginning the LIHTC process again, this time as a four percent bond deal.

Conclusion

The Capital Overlook Apartments is a financially feasible, sustainably built, mixed-income housing community in Fairmount Heights, Maryland. With the use of nine percent Low Income Housing Tax Credits and a HUD221(d)(4) loan, the \$21.8 million project will provide

much needed apartment stock, including 48 units at 60 percent of area median income and 64 market-rate units.

The other key component of the Capital Overlook Apartments project will be the addition of the William Sidney Pittman Community Center that will be a place of health, wellness, education, and community for the proud town of Fairmount Heights. The center will provide services including fitness classes, job skills, financial literacy and more, as well as hosting community-organized events and serving as a central gathering point for citizens of all ages.

The project aims to reactivate the Sheriff Road Park and transform the 4.4-acre greenfield site into an integral part of the surrounding community. The site's location on the border of DC, with plenty of public transportation available, will play a part in making Capital Overlook Apartments one of the most desirable residential communities in the greater Washington area.